

Chapter 25
Audit Criteria

WSDOT audits are conducted in accordance with the generally accepted government auditing standards established by the United States General Accounting Office.

The primary audit criteria used by the WSDOT Audit Office for the audit of consultant agreements is the Federal Acquisition Regulations System 48 Code of Federal Regulations. The secondary audit criteria is the 1994 WSDOT Overhead Policy as issued by the WSDOT Consultant Services Office. In addition, audit criteria is established in the written agreement between WSDOT and the consultant.

The agreement may limit or restrict the billing of certain costs, for example travel and per diem, or the way that a consultant bills labor costs, i.e., no overtime premium on labor costs is allowed.

Chapter 26 includes 48 CFR Part 31 Contracts with Commercial Organizations. This is the primary source of audit criteria pertaining to costs. As stated elsewhere in this guide, the Audit Office does use other parts of 48 CFR to provide guidance in dealing with selected audit issues.

We recommend the reader do at least the following:

- Become familiar with the contents of Part 31 of 48 CFR and read the complete text of the agreement your firms signs with WSDOT.

1992 WSDOT Bonus Policy

The effective date of the 1992 WSDOT Bonus Policy remains April 1, 1992.

All new cost plus fixed fee, hourly billing rate, or lump sum agreements that were signed after April 1, 1992, will use the bonus policy. It will be applied to the consultant's most current completed fiscal year, or the consultant's projected current fiscal year, to determine an overhead rate that will be used for billing purposes.

Any cost plus fixed fee, hourly billing rate, or lump sum supplement that is signed after April 1, 1992, will be subject to the same application of the bonus policy as a new agreement that is signed after April 1, 1992.

WSDOT has a bonus policy which allows firms to obtain reimbursement of bonus costs in accordance with the rules established by the Federal Acquisition Regulations (FAR) 48 CFR 31.205-6.

Participation in Costs

WSDOT uses the FARs as a primary guidance for cost rules and procedures. The following subparts of 48 CFR 31.205-6 address to some extent employee compensation, which includes bonuses. The reader should become familiar with the other subsections of 31.205-6.

31.205-6 Compensation for personal services.

(a) GENERAL Compensation

- (1) "Compensation for personal services must be for work performed by the employee in the current year and must not represent a retroactive adjustment of prior years' salaries or wages. . ."
 - (2) "The compensation in total must be reasonable for the work performed; however, specific restrictions on individual compensation elements must be observed where they are prescribed."
 - (3) "The compensation in total must be based upon and conform to the terms and conditions of the contractor's established compensation plan or practice followed so consistently as to imply, in effect, an agreement to make the payment."
 - (4) "No presumption of allowability will exist where the contractor introduces major revisions of existing compensation plans or new plans and the contractor
 - (i) Has not notified the cognizant ACO of the changes either before their implementation or within a reasonable period after their implementation, and
 - (ii) Has not provided the Government, either before implementation or within a reasonable period after it, an opportunity to review the allowability of the changes."
 - (5) "Costs that are unallowable under other paragraphs of this subpart 31.2 shall not be allowable under this subsection 31.205-6 solely on the basis that they constitute compensation for personal services."
- (b) "Reasonableness. The compensation for personal services paid or accrued to each employee must be reasonable for the work performed. Compensation will be considered reasonable if "each" of the allowable elements making up the employee's compensation package is reasonable. . . In determining the reasonableness of individual elements for particular employees or job classes of employees, consideration should be given to all potentially relevant facts. Facts which may be relevant include general conformity with the compensation practices of other firms of the same size, the compensation practices of other firms in the same industry, the compensation practices of other firms in the same geographic area, the compensation practices of firms engaged in predominantly nongovernment work, and the cost of comparable services obtainable from outside sources."

Reasonableness, as defined by WSDOT for bonuses, limits total bonus compensation to 15 percent of FARs allowable overhead costs as shown in the following examples:

Example 1

Direct Labor Base	\$ 100,000
OH Pool, Excluding Bonus	\$ 120,000
Actual Bonus Paid, not in OH Pool Amount	\$ 30,000

B=Allowable Bonus Amount

$$B = .15[(\text{Overhead Pool } 120,000) + \text{Allow. Bonus}]$$

$$B = 18,000 + .15B$$

$$B - .15B = 18,000$$

$$.85B = 18,000$$

$$B = \$21,176$$

Actual Bonus Paid	\$ 30,000
Allowable Bonus	21,176
Adjustment to Bonus	\$ (8,824)

Overhead Pool, Excluding Bonus	\$ 120,000
Allowable Bonus	21,176
Total Allowable OH	\$ 141,176

Overhead Rate 141.18%

Allowable Bonus	\$ 21,176 *
Total Allowable OH	\$ 141,176

*15 percent of Total Allowable OH.

Example 2

Direct Labor Base	\$ 500,000
OH Pool, Excluding Bonus	\$ 700,000
Actual Bonus Paid, not in OH Pool Amount	\$ 100,000

B=Allowable Bonus Amount

$$B = .15[(\text{Overhead Pool } 700,000) + \text{Allow. Bonus}]$$

$$B = 105,000 + .15B$$

$$B - .15B = 105,000$$

$$.85B = 105,000$$

$$B = \$123,527$$

Potential Allowable Bonus	\$ 123,527
Actual Bonus Paid	100,000
Adjustment to Bonus	\$ 0 *

Overhead Pool, Excluding Bonus	\$ 700,000
Allowable Bonus	100,000
Total Allowable OH	\$ 800,000

Overhead Rate 160.00%

Allowable Bonus	\$ 100,000 **
Total Allowable OH	\$ 800,000

*If actual bonus < potential allowable bonus, the actual bonus amount is accepted.

**12.5 percent of Total Allowable OH.

Example 3

Direct Labor Base	\$1,000,000
OH Pool, Excluding Bonus	\$1,500,000
Actual Bonus Paid, not in OH Pool Amount	\$ 300,000

B=Allowable Bonus Amount

$$B = .15[(\text{Overhead Pool } 1,500,000) + \text{Allow. Bonus}]$$

$$B = 225,000 + .15B$$

$$B - .15B = 225,000$$

$$.85B = 225,000$$

$$B = \$264,706$$

Actual Bonus Paid	\$ 300,000
Allowable Bonus	264,706
Adjustment to Bonus	\$ (35,294)

Overhead Pool, Excluding Bonus	\$1,500,000
Allowable Bonus	264,706
Total Allowable OH	\$1,764,706

Overhead Rate 176.47%

Allowable Bonus	\$ 264,706 *
Total Allowable OH	\$1,764,706

*15 percent of Total Allowable OH.

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